

Ways and Means Select Revenue Measures and Oversight Joint Subcommittee Hearing on
Minding the Tax Gap: Improving Tax Administration for the 21st Century
June 10, 2021

SRM Ranking Member Adrian Smith Opening Statement:

Thank you, Mr. Chairman, for the time.

I appreciate that we're taking this time to further investigate the administration's tax enforcement proposals, and their potential impact on our economy.

We agree it is fundamentally unfair to believe Americans who pay their taxes accurately and on time, but some people don't.

Our system of voluntary compliance works because Americans believe their friends and neighbors are also following the rules.

Our system should recognize that by not further burdening the families, farmers, ranchers, and small businesses who already put substantial time and resources into following the law.

We should work in a bipartisan fashion to find ways we can better track down those who cheat the system without undermining bipartisan successes in bringing accountability to the IRS, like the Taxpayers First Act.

That said, I come into this hearing with concerns about President Biden's compliance proposal on a number of fronts.

I'm very skeptical about the IRS' projected return on investment. The administration is promising to bring the nearly three quarters of a trillion dollars over the next decade, with its proposal.

Their estimate relies on an assumption that \$80 billion in new funding would raise more than five times that in newly collected revenue.

However, the Congressional Budget Office has previously estimated a two and a half to one return rate on original IRS enforcement, which would net only about \$200 billion, or 200 billion from those dollars.

Second, I have serious concerns about establishing a mandatory funding stream for the IRS.

We have a strong track record in Congress of establishing and sticking to pathways for more predictable funding for agencies, whether it's pre-funding the Department of Veterans Affairs, or Corporation for Public Broadcasting, or working to double NIH funding over time.

I'd be glad to work with appropriators in a bipartisan fashion to find a way to give IRS and other agencies more long-term certainty so they can plan for their staffing needs.

At the same time that certainty could come through regular appropriations to ensure we continue to have proper oversight of the agency when issues arise, whether it is printers without toner, or rogue employees leaking taxpayer data to the press.

We should also keep in mind any time we ask the IRS to devote resources to mailing monthly checks or providing insurance subsidies, those are resources that can go to enforcement or customer service.

My biggest concern, however, is that this proposal falls in line with other problems with the President's tax agenda, all of which I would characterize as, quote, fairness run amok, end quote.

As we discussed in our last SRM hearing, the administration's proposals to repeal stepped up basis, and tax capital gains cover for the fact that they have chosen to pursue a punitive capital gains rate, in the name of fairness, instead of one that maximizes the revenue or economic activity.

The G-7 minimum corporate tax proposal engineered by Secretary Yellen, only serve as cover for the administration's desire to hike our corporate tax rate in the name of supposed fairness, instead of recognizing the corporate tax reform, under the Tax Cuts and Jobs Act made the United States a more desirable place to create jobs, while also stopping corporate inversions.

And now, today, we are reviewing President Biden's proposal to install 90,000 new government bureaucrats to harass American businesses, farmers and ranchers, because he finds unfairness in the fact that our tax code provides various options for how to organize and pay taxes as a small business, just as most modern economies do.

While it is easy to understand why the President might think the only reason to set up an S corporation is to avoid Medicare taxes on book royalties or speaking fees, that is not the primary reason why small businesses organize themselves in that way.

There are areas where we can work together in a constructive way to modernize enforcement of our tax code. For example, by setting specific and clear, consistent rules and procedures for the taxation of cryptocurrency in a manner which doesn't discourage American innovation in this new industry.

That should be our focus.

Thank you again, Mr. Chairman, I'm looking forward to the administration explaining their proposal, and to hear varying perspectives on it.

I yield back. Thank you.

